

Message Text

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PAGE 01 GENEVA 09664 01 OF 02 261041Z
ACTION IO-14

INFO OCT-01 ISO-00 AGRE-00 AID-05 EB-08 ICA-20 COME-00
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AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY VIENNA

UNCLAS SECTION 01 OF 02 GENEVA 09664

E.O. 11652: N/A
TAGS: UNDP EAID PORG
SUBJECT: UNDP INTERGOVERNMENTAL COMMITTEE ON OVERHEAD
COSTS: SUMMARY OF SESSIONS

REF: ROME 11594

1. INTERGOVERNMENTAL COMMITTEE ON OVERHEAD COSTS MET
FORMALLY AND INFORMALLY BEGINNING JUNE 5, ADOPTING A
DRAFT DECISION ON JUNE 8. DRAFT INTERIM REPORT SUB-
SEQUENTLY WAS ADOPTED AND WILL NEXT BE TAKEN UP IN THE
BUDGET AND FINANCE COMMITTEE AS AGENDA ITEM 17(I).

2. DRAFT DECISION EXPRESSES APPRECIATION FOR AGENCY AND
UNDP EFFORTS TO REDUCE OVERHEAD COSTS (AS FROM NOW TO
BE TERMED SUPPORT COSTS) AND URGES THAT ANY NEW FORMULA
FOR REIMBURSEMENT PROVIDE AN INCENTIVE TO REVIEW AND
REDUCE OVERALL SUPPORT COSTS. A NEW FORMULA SHOULD BE
EASY TO UNDERSTAND, PRACTICAL TO OPERATE AND DURABLE
(LAST POINT MADE AT BEHEST OF ILO OBSERVER WHO NOTED IT
WAS INADVISABLE TO FREQUENTLY CHANGE THE SYSTEM).
UNCLASSIFIED

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PAGE 02 GENEVA 09664 01 OF 02 261041Z

3. OPERATIVE PARAGRAPHS REDUCE THE NUMBER OF VARIABLES
CONTAINED IN THE JIU REPORT (DP/WGOC/21). A NEW FORMULA
SHOULD BE BASED AS CLOSELY AS POSSIBLE ON ACTUAL COST
DATA AND SHOULD TAKE ACCOUNT OF (A) ECONOMIES OF
SCALE, I.E. SCOPE TO BE GIVEN FOR REDUCED REIMBURSEMENTS
FOR PROJECT EXPENDITURES IN A GIVEN YEAR ACCORDING TOTOTAL

SIZE, TOGETHER WITH SPECIAL PROVISIONS FOR THE SMALLER AGENCIES; (B) NATURE AND COMPONENT MIX OF PROJECTS (E.G., EQUIPMENT, SUB-CONTRACTS AND EXPERTS), THROUGH THE APPLICATION OF A LOWER PERCENTAGE FACTOR FOR EQUIPMENT AND SUB-CONTRACTS, TAKING INTO CONSIDERATION PRACTICES ALREADY IN VOGUE IN MANY AGENCIES FOR FUNDS-IN-TRUST AND MULTI-BI PROJECTS; AND (C) METHOD OF EXECUTION. THIS REFERS PRIMARILY TO GOVERNMENT EXECUTION, WHERE THE ASSOCIATED AGENCY WOULD BE REIMBURSED ONLY FOR CDSTS DERIVING FROM SPECIFIC IMPUTS INCLUDED IN THE PROJECT BUDGET AND DELIVERED BY THE AGENCY AT THE REQUEST OF THE GOVERNMENT.

4. IN A SEPARATE AND LESS EMPHATIC PARAGRAPH, THE WORKING GROUP SUGGESTED THE FORMULA TAKE INTO ACCOUNT VARIATIONS IN THE OPERATING EXPENSES OF AGENCY HEADQUARTERS IN DIFFERENT CITIES AND ALSO A STABILIZATION MEASURE TO PRESENT PRECIPITOUS ANNUAL CHANGES IN REIMBURSEMENT DUE TO CHANGES IN PROJECT LEVELS.

5. THE ADMINISTRATOR IS TO CONSULT WITH THE EXECUTING AGENCIES, AND IF POSSIBLE WITH THE ACC, TO RECOMMEND A MODIFIED FORMULA FOR THE NEXT MEETING OF THE WORKING GROUP IN JANUARY, 1979. DRAFT DECISION ALSO SUGGESTS CHANGING NAME TO THE "INTERGOVERNMENTAL WORKING GROUP ON SUPPORT COSTS."
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PAGE 03 GENEVA 09664 01 OF 02 261041Z

6. DURING COURSE OF THE MEETINGS IT BECAME CLEAR THAT THE AGENCIES AND JIU WERE SUBSTANTIVELY AND EVEN EMOTIONALLY AT ODDS OVER THE JIU FORMULA CONTAINED IN WGOC/21 AND JIU'S REPEATED REFERENCES TO THE NEED FOR FURTHER COST MEASUREMENT STUDIES IF A SCIENTIFIC FORMULA WAS TO BE FOUND. AGENCIES, SPEAKING AS A GROUP, THROUGH FAO REP WEST, STATED CONCERN THAT THE JIU FORMULA WAS ARBITRARY AND WOULD REDUCE OVERALL UNDP REIMBURSEMENTS WHILE NOT PROVIDING A MEANS OF ACHIEVING COST REDUCTIONS. THEY FEARED PRESSURE ON ASSESSED BUDGETS WOULD INCREASE. THEY (USUALLY THROUGH FAO REP WEST) SPOKE OUT AGAINST ANY ATTEMPT BY THE JIU TO EFFECT COST MEASUREMENTS ON THE GROUND THAT IT WOULD ENTAIL TOO MUCH COST AND EFFORT AND AGAINST ANY ATTEMPT TO USE A FORMULA WHICH MIGHT TAKE INTO ACCOUNT THEIR OVERALL CAPABILITY AND VOLUME OF TECHNICAL ASSISTANCE AS A MEANS OF COMPUTING REIMBURSEMENTS FROM UNDP. DEVELOPED COUNTRIES, PRIMARILY CANADA, UK, FRG, SWEDEN, FINLAND AND US, REPEATEDLY STRESSED THE NEED FOR BETTER COST IDENTIFICATION BY THE AGENCIES, COST SAVINGS RATHER THAN PASSING ON UNREIMBURSED COSTS TO THE EXECUTING AGENCIES' REGULAR

BUDGETS, NEED FOR A SIMPLE, PRAGMATIC SOLUTION TO A LONG-STANDING PROBLEM, AND THEIR DESIRE TO AT LEAST APPROACH A MORE RATIONAL METHOD OF REIMBURSEMENT. CANADA WANTED THE AGENCIES TO SUBMIT TO THE NEXT SESSION ESTIMATES OF THE NEW FORMULA'S IMPACT ON THE LEVEL OF THEIR SUPPORT COSTS. SWEDEN STATED THAT COST SAVINGS SHOULD BE SHARED BETWEEN THE SPECIALIZED AGENCIES AND THE UNDP. FRG EMPHASIZED THE NEED FOR UNDP/AGENCY SPIRIT OF COOPERATION. FINLAND PUSHED VERY HARD, BUT WITHOUT SUCCESS, FOR A FURTHER JIU-LED COST MEASUREMENT STUDY.

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PAGE 01 GENEVA 09664 02 OF 02 261043Z

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UNCLAS SECTION 02 OF 02 GENEVA 09664

ALL REPEATED NEED FOR THE WORKING GROUP TO COMPLETE ITS WORK IN TIME FOR A REPORT TO THE 26TH GOVERNING COUNCIL AND EXPRESSED HOPE FOR IMPLEMENTATION OF A NEW FORMULA IN THE THIRD CYCLE 1982-86.

7. INDIA WAS AMONG THE MORE VOCAL LDC'S EMPHASIZING THE NEED TO REDUCE COSTS AND TO PASS THE SAVINGS ON TO THE IPFS. THEY WISHED TO SEE "NEW DIMENSIONS," IMPLEMENTED AS PERTAINING TO GOVERNMENT MANAGEMENT AND GENERALLY SUPPORTED THE JIU FORMULA. LDCS GENERALLY FOCUSSED ON THE NEED TO REDUCE SUPPORT COSTS AS A MEANS OF EXPANDING RESOURCES FOR TECHNICAL ASSISTANCE BUT WERE LESS SPECIFIC ON THE VARIABLES CONTAINED IN THE JIU EXPANDED NOTE.

8. AFTER FINAL DRAFT DECISION TEXT WAS NEGOTIATED, JIU INSPECTOR BERTRAND TOLD DELOFF THAT THIS WAS THE FIRST, ALTHOUGH SMALL STEP IN THE RIGHT DIRECTIDN AFTER MANY

YEARS OF TRYING. FAO REP WEST SEPARATELY STATED THAT HE BELIEVED FAO DG SAOUMA (WITH WHOM HE HAD BEEN IN FREQUENT CONTACT BY TELEPHONE) PROBABLY WOULD BE ABLE TO LIVE WITH THE DECISION AND THAT HE BELIEVED FAO
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PAGE 02 GENEVA 09664 02 OF 02 261043Z

WOULD COOPERATE WITH UNDP IN REFINING AN ABBREVIATED FORMULA. REFTELS REPORT ON WEST'S SUBSEQUENT VIEWS CONTAINED IN SUBPARAS C AND D MAY REPRESENT A SLIGHT HARDENING OF POSITION. WEST, IN FACT, HAD EXPRESSED FAO'S CONCERN ON ECONOMIES OF SCALE (DRAFT DECISION PARA 12) DURING COURSE OF THE SESSION. PARA 15 (AS CONTAINED IN CONFERENCE ROOM PAPER 2) REFERS TO THE FEASIBILITY OF INCLUDING SUPPORT COST FIGURES IN PROJECT DOCUMENTS. VANDEN HEUVEL

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